
Audit of Wai`alae Elementary Public Charter School

A Report to the
Governor
and the
Legislature of
the State of
Hawai`i

Report No. 05-06
July 2005



THE AUDITOR
STATE OF HAWAI`I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 S. King Street, Room 500
Honolulu, Hawai'i 96813

OVERVIEW

Audit of Wai`alae Elementary Public Charter School

Report No. 05-06, July 2005

Summary

Wai`alae Elementary Public Charter School, established in 1928 as a public school, was the first in Hawai'i to adopt school/community based management in 1990. It also became the State's first charter school in 1995, serving close to 500 students from kindergarten through 5th grade. As a charter school it is a school of choice, but it is also the neighborhood school for a geographic district. About half of the school's students reside outside the neighborhood it serves. The school's available fiscal resources for FY2004-05 exceeded \$3 million.

We found that Wai`alae has used its autonomy as a charter school to direct more resources into the classroom. In addition, the school has adopted educational programs that differ markedly from traditional educational approaches. The effects of those programs, however, remain uncertain. Wai`alae considers statewide standards-based tests such as the Stanford Achievement Test poor measures of its students' achievements; in fact, the school sees these assessments as distractions to its vision and purpose and not relevant for its curriculum and instructional approach. Nevertheless, the school has not adopted alternative objective measures to demonstrate its achievements to policy-makers and the community at large.

The Legislature's vision for charter schools was to improve educational standards and enhance learning, statewide. To answer the question of whether becoming a charter school has resulted in a superior educational experience for its students, we analyzed test data from state administered assessments back to 1990. We found that Wai`alae students, while still among the highest scoring in the public school system, do not show a higher level of achievement since the school received its charter. In fact, the school may have slipped, in mathematics. We also compared test results of Wai`alae graduates attending the neighborhood middle school with those of students who graduated from other schools in the area, before and after Wai`alae received its charter. The analysis indicates that Wai`alae students no longer clearly outscore their peers the way they did in the pre-charter period.

We also found Wai`alae's school board can improve its governance. The board has an ineffective process for selecting its members, partially mandated by a charter school law that warrants revision. In addition, the board suffers from dissent, lacks structure and leadership, keeps poor records, and has not matured into a body focused on the school's long-term future. The board seeks to arrive at decisions by consensus. This process, however, has resulted in delayed decisions and lengthy meetings. Relying on a "group memory" instead of conventional detailed minutes leaves the board's decisions vulnerable to challenge. The by-laws are incomplete, lacking, for example, provisions on conflict of interest and responsibilities of standing committees.



The board's vague policies and inadequate oversight have resulted in instances of noncompliance with purchasing requirements, gaps in measures ensuring health and safety of students, and a financial management system that is poorly suited for the school's needs. For example, the school did not obtain bids for a food services contract exceeding \$152,000, a requirement under the procedures the school professes adherence to. The board's erroneous belief that it is exempt from procuring financial audits created an accountability gap for its stewardship of public funds. Finally, the school's authority to carry forward unspent fund balances from year to year needs to be clarified. Wai`alae has accumulated an estimated \$587,000 in carryover funds.

Recommendations and Response

We recommended that Wai`alae adopt accountability measures that supplement the available standards-based scores to provide policy-makers with the information needed to assess its education programs. In addition, we recommended that the school's board improve its bylaws and policies and procedures; develop long-term strategies for the school's future; and develop a plan for better accounting and financial reporting capabilities.

We also recommended that the Legislature evaluate the need to amend the charter school law to remove the group representation requirements for conversion school boards, clarify its intent over charter schools' authority to carry over appropriated funds, and clarify requirements for financial audits.

Wai`alae Elementary Public Charter School, the Board of Education, and the Charter School Administrative Office responded to a draft of the report. While generally agreeing with our conclusions, the responses included disagreements and suggested clarifications. For example, the Charter School Administrative Office believes that Wai`alae Elementary Public Charter School is not required to improve its state test scores over pre-charter levels, citing experimentation as a major reason for the creation of charter schools. We made some minor changes to improve clarity and accuracy based on their suggestions.

Marion M. Higa
State Auditor
State of Hawai`i

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawai`i 96813
(808) 587-0800
FAX (808) 587-0830

Audit of Wai`alae Elementary Public Charter School

A Report to the
Governor
and the
Legislature of
the State of
Hawai`i

Submitted by

THE AUDITOR
STATE OF HAWAI`I

Report No. 05-06
July 2005

Foreword

This is a report on our audit of Wai`alae Elementary Public Charter School, Hawai`i's first charter school. We conducted the audit pursuant to Section 23-4, Hawai`i Revised Statutes, which requires the Office of the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

We wish to express our appreciation for the cooperation and assistance extended to us by Wai`alae Elementary Public Charter School and others whom we contacted during the course of the audit.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background	1
Objectives of the Audit	5
Scope and Methodology	5

Chapter 2 Wai`alae School Needs Relevant Public Accountability Measures and Better Governance

Summary of Findings	7
Wai`alae Has Not Demonstrated That Its Charter Status Enhanced Learning	7
The School's Board Needs to Strengthen Its Governance and Administrative Oversight	17
Issue for Further Study	30
Conclusion	31
Recommendations	32

Notes	41
-------------	----

Responses of the Affected Agencies	43
--	----

List of Exhibits

Exhibit 1.1	Wai`alae Elementary Public Charter School, FY2004-05 Budget	5
Exhibit 2.1	Five-school Comparison of Combined Average and Above Average SAT Scores in Reading and Mathematics, 1990-1994 and 2002-2004	14
Exhibit 2.2	Five-school Comparison of Percent of Students Scoring Average and Above Average in SAT Mathematics Test, 1990-1994 and 2002-2004	15
Exhibit 2.3	Five-school Comparison of 3rd Grade Scores for Hawai`i Content and Performance Standards Tests in Mathematics and Reading	16

Exhibit 2.4	Kaimuki Middle School Mathematics and Reading SAT, Comparing Former Wai`alae Students with Students from Other Schools, 1995-1997 (6th Grade) and 2002-2004 (8th Grade)	18
-------------	---	----

List of Appendixes

Appendix A	Stanford Achievement Test Data for Exhibits 2.1 and 2.2	35
Appendix B	Five-school Comparison of Hawai`i Content and Performance Standards Test Schoolwide Combined "Meets" and "Exceeds" Proficiency Percentages for Reading/Mathematics, and Average Writing Percentages, 2002-2004 (3rd and 5th Grades)	37
Appendix C	Kaimuki Middle School Stanford Achievement Test Mathematics and Reading Mean Percentile Ranks Comparing Former Wai`alae Students and Students from Other Schools, 1995-1997 (6th Grade) and 2002-2004 (8th Grade)	39

Chapter 1

Introduction

The audit of Wai`ālae Elementary Public Charter School is the second charter school audit performed by our office. It was selected in part to gain a balanced picture of charter schools' achievements and challenges by reviewing the operations of a conversion charter school with a reputation for excellence and stability.

The State Auditor conducted this audit of Wai`ālae Elementary Public Charter School pursuant to Section 23-4, Hawai`i Revised Statutes (HRS), which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

Background

The charter school movement has its roots in education reform ideas such as alternative schools, site-based management, magnet schools, public school choice, privatization, and community-parental empowerment. The term "charter" may have originated in the 1970s when a New England educator suggested that small groups of teachers be given contracts or "charters" by their local school boards. This concept grew into the idea that whole schools could be chartered with teacher and union approval. In the late 1980s, charters were awarded to some schools-within-schools in Philadelphia. The charter era formally began with the passage of the first state charter school law by the Minnesota legislature in 1991. Eighteen more states followed by 1995. By 2004, 41 states and the District of Columbia had passed laws authorizing charter schools. In the same year, 2,695 charter schools served 685,000 students, nationwide.

Hawai`i has been in the forefront of educational innovations with the authorization of school/community based management in 1989 and student centered schools in 1994. Student centered schools were in effect charter schools but the charter was open to existing department schools only. In 1999, the Legislature expanded the availability of charters to newly created schools.

Hawai`i's charter schools are authorized by Chapter 302A, Part IV, Section D, HRS, entitled *New Century Charter Schools*. The charter school law provides for two kinds of charter schools: new century charter schools and new century conversion charter schools. New century charter schools are newly created (start-up) schools that may secure their own facilities or use facilities of existing public schools, so-called "schools-within-schools." New century conversion charter schools are

public schools whose management and operations were transferred from the Department of Education to a local school board. These schools continue to occupy their state-owned facilities.

State law permits the creation of 23 new century charter schools and 25 new century conversion charter schools. As of April 2005, 23 new century charter schools and four conversion charter schools were operating, totaling 27 charter schools.

Hawai`i's charter schools are each publicly funded and operated by a local school board formed by community groups or private organizations, or by a board comprised of parents, educators, and community members. "Local school board" is the statutory term for the governing body of a charter school. While start-up schools are free to determine the composition of their boards, conversion charter school boards by law must include one representative each for principals, teachers, support staff, parents, students, and the community-at-large.

Charter schools were created with the intent to encourage alternative administrative and instructional programs. In exchange for wide-ranging independence from statutory and administrative requirements, charter schools are held accountable for student performance and other goals specified through written contracts between the local school board and the state Board of Education. In addition to administrative flexibility, charter schools also enjoy substantial spending flexibility. The charter school law provides that these schools are exempt from "all applicable state laws," except for laws regarding collective bargaining, discriminatory practices in employment, and health and safety requirements. Although specifically exempt from the Hawai`i Public Procurement Code, these schools must develop policies and procedures consistent with the goals of public accountability and procurement practices.

Charter School Administrative Office

Act 203, Session Laws of Hawai`i (SLH) 2003, created the Charter School Administrative Office, which is administratively attached to the Department of Education and headed by an executive director. The executive director, under the direction of the Board of Education and the charter schools, is responsible for the internal organization, operation, and management of charter schools, including: preparing and executing the overall budget for charter schools; allocating funds; complying with applicable state laws related to charter school administration; facilitating financial audits; and preparing and executing contracts for centralized services. In addition, the executive director represents charter schools in communications with the board, the governor, and the Legislature, and is charged with monitoring and supporting the development, growth, and progress of charter schools.

The Charter School Administrative Office has assumed some functions previously performed by the department and the Board of Education, including monitoring and maintaining charter school annual self-evaluations and supporting the local school boards, respectively. Such support includes assisting with formulating detailed implementation plans and serving as a member of the new century charter school review panel.

Board of Education

The Board of Education approves each charter school's detailed implementation plan based on a charter school review panel's recommendation. By law, this review panel is comprised of four board members, the Charter School Administrative Office executive director, and two members of the charter school community. Each school's plan must include provisions regarding employee rights; student recruitment; curriculum; governance structure; facilities; and assessments for students, teachers, and administrative support. After the Board of Education approves the detailed implementation plan, the plan becomes a written performance contract between the board and the charter school.

The Board of Education's statutory responsibilities include monitoring charter schools to ensure compliance with educational and fiscal accountability requirements. Charter schools are required to maintain organizational viability to ensure that the school operates in accordance with its charter. In addition, charter schools must meet Hawai'i Content and Performance Standards as well as federal requirements, such as those imposed by the No Child Left Behind Act of 2001. To ensure that these requirements are met, the board is required to initiate annual independent evaluations of each charter school during the school's first two years of operation and every four years thereafter. If a charter school does not meet student performance standards or is not fiscally responsible, the board must place the school on probation for one year. If the school's status does not improve over the probationary period, the school's charter may be revoked by a two-thirds majority vote of the board. The board has exercised its oversight authority by placing one charter school on probationary status after the school incurred a substantial deficit in its first year of operation. The State has the first right to all assets and facilities if a charter school dissolves or has its charter revoked.

Department of Education

The Department of Education created the Public Charter Schools Program under the Public Affairs Office in 2000 to facilitate the creation of new public charter schools and to support existing charter schools, including administering federal grants for charter schools in Hawai'i. With the creation of the Charter School Administrative Office in 2003, the department was released from its fund allocation, administrative, and

operational responsibilities but continues to administer federal charter school grants.

However, the department is also required to collaborate with the Charter School Administrative Office to develop a technical assistance system, a list of centralized services available for purchase by charter schools, and guidelines for the provision of special education services and resources to charter schools. As a result, charter schools are able to negotiate and purchase an array of centrally provided services from the department, such as accounting, payroll processing, and food services.

Wai`alae Elementary Public Charter School

Wai`alae Elementary Public Charter School, then called Wai`alae Elementary School, opened in 1928 as a neighborhood school for the growing Kâhala/Kaimuki community, serving 1st through 6th grades. The current buildings date from 1960. Prior to 1988, the school's mascot was the mudhen: first, because of its meaning in the Hawaiian language, *wai* (water) and *`alae* (mudhen); and second, because Wai`alae was a breeding ground for mudhens prior to the area's development. The student population reached 1,000 during the baby boom after World War II but shrank when Fort Ruger was closed, thereby threatening the school's closure in the 1970s. Today, the school serves close to 500 students in kindergarten through 5th grade. While it is the neighborhood school for its community, currently about half of the student body is from outside the immediate community through geographic exceptions. The school employs over 50 people.

Wai`alae Elementary Public Charter School has a history of educational excellence and innovation. Traditionally one of the highest scoring schools in the state system in standardized tests, it became the State's first school to adopt school/community based management in 1990 and the first "student centered school" in 1995, the original charter schools in Hawai`i.

Most of the school's income comes from the per student allocation appropriated by the Legislature and federal grants and funds channeled through the State Department of Education. Wai`alae's FY2004-05 budget provides for the following expenditures (rounded to nearest ten thousands):

Exhibit 1.1**Wai`alae Elementary Public Charter School, FY2004-05 Budget**

Personnel	\$ 1,800,000
Supplies and Services	\$ 400,000
Equipment	\$ 20,000
Total	\$ 2,220,000

Source: Wai`alae Elementary Public Charter School

Overall, however, the school's available resources for FY2004-05 exceed \$3,000,000, including various state program and federal allocations from the Department of Education and a \$587,000 carry over from the previous year. In addition, the school received significant amounts from donations and fundraising. For example, Friends of Wai`alae School, a volunteer group associated with the school, has raised up to an additional \$51,000 per year to enhance educational programs and provide classroom supplies. The school also has created the Wai`alae School Foundation, a tax exempt 501(c)(3) non-profit organization as a vehicle to establish an endowment fund. No formal steps or plans are currently in place to raise the \$1 million envisioned for the endowment.

Objectives of the Audit

1. Determine whether Wai`alae Elementary Public Charter School is in compliance with applicable laws and regulations and its charter.
2. Assess Wai`alae Elementary Public Charter School's management controls, including financial, personnel, and procurement practices.
3. Make recommendations as appropriate.

Scope and Methodology

The audit focused on management practices and controls of Wai`alae Elementary Public Charter School as well as the school's compliance with state and federal laws, rules, and regulations from FY2002-03 to the present. We examined processes and transactions preceding the school's receipt of its charter in FY1995-96 as needed to provide perspective for interpreting more recent events. Where necessary and relevant to our audit objectives, we evaluated responsibilities and functions of other agencies and offices as they pertain to Wai`alae Elementary Public Charter School. Such agencies include the Departments of Education, the Attorney General, and Budget and Finance, and the Charter School Administrative Office. We made several site visits to the school's facilities during our fieldwork.

Audit procedures included interviews with current and former local school board members, administrators, teachers, and staff. We reviewed the school's detailed implementation plan, policies and procedures, reports, accounting transactions, and other relevant documents to assess the effectiveness of the school's performance in accordance with pertinent laws. We also examined management controls in the areas of financial management, personnel, and procurement.

Our audit work was conducted from December 2004 through March 2005 according to generally accepted government auditing standards. We also report on statutory changes and legal opinions received after March 2005 that relate to the Sunshine Law.

Chapter 2

Wai`alae School Needs Relevant Public Accountability Measures and Better Governance

Wai`alae Elementary Public Charter School's educational programs differ markedly from traditional approaches in education. The overall effect of these programs, however, remains uncertain. Wai`alae's internally focused assessments provide little information to policy-makers and the general public to account for the school's performance. While statewide standards-based test results indicate that becoming a charter school has not improved student outcomes, the school does not view these measures as relevant to its educational goals. It has not developed, however, alternative measures useful to policy-makers to assess the quality of its educational programs.

In addition, we found that Wai`alae's school board needs to improve its governance. The board's development is hampered by: 1) an ineffective selection process that is, in part, statutorily mandated; and 2) poor practices in conducting its business and overseeing the school. The board, which suffers from dissent among its members and a lack of structure and leadership, has not matured and assumed its responsibility for mapping and overseeing the school's long-term prosperity and success. Lacking effective policies and procedures, the board has not ensured that the school meets the requirements of its charter and the charter school law.

Summary of Findings

1. Wai`alae has not demonstrated that its charter status has enhanced learning.
2. The school's board needs to strengthen its governance and improve its oversight over administrative practices.

Wai`alae Has Not Demonstrated That Its Charter Status Enhanced Learning

After becoming Hawai'i's first charter school in 1995, Wai`alae put more resources into the classroom and implemented new instructional programs. Wai`alae completely changed its academic focus, replacing traditional instruction methods and assessments with a constructivist approach to education. To its credit, the school has easily met Adequate Yearly Progress criteria under the federal No Child Left Behind education reform act and its students perform significantly above average in statewide tests. However, after more than nine years as a charter

school, Wai`alae is unable to objectively demonstrate the benefits to students from its shift in academic focus.

Wai`alae's charter status enabled it to direct more resources to the classroom

Act 272, SLH 1994, intended to empower Wai`alae as a student centered school with the necessary authority, resources, and flexibility to enable it to focus on delivering instructional services. The school used its newly gained autonomy to restructure its educational programs. Combining its state and federal funding with free use of facilities and support from community volunteers, the school was able to place greater resources into the classroom while accumulating a surplus over nine years estimated at over \$500,000.

As a conversion charter school, Wai`alae uses existing state school facilities rent-free. In addition, the Department of Accounting and General Services performed repairs and renovations worth several hundred thousand dollars. However, Wai`alae has also managed and paid for some facilities repairs and maintenance projects with the help of volunteers, including a private sector facilities maintenance expert, with significant savings to the State. For example, the school installed required lighted exit signs at a cost of \$2,000. According to the school, the Department of Accounting and General Services provided an estimate of over \$20,000 for the project. In another instance, Wai`alae School purchased an \$11,000 mower to significantly improve lawn maintenance services. These services, now performed by the school's existing support staff, can be better scheduled and adapted to weather conditions, saving about \$6,000 annually in charges by the Department of Education.

Parents and community members volunteer about 8,000 hours per year to Wai`alae through organizations such as the Learning Hui and the FELLOWS senior citizens program. These volunteers assist teachers in the classroom, help administrators and staff with clerical and professional work, and tutor students. Conservatively valued, the volunteer hours donated to the school provide tens of thousands of dollars in services per year.

In addition, the school's volunteer support organization, the Friends of Wai`alae School, has raised between \$40,000 and \$50,000 per year to augment the school's budget for special projects and classroom supplies. For example, the Friends of Wai`alae School contributed \$14,890 towards the renovation of the school's kitchen and provided each classroom teacher with up to \$500 per school year for supplies. Adding other donors, the school may receive as much as \$70,000 per year from donations and fundraisers.

As a result, Wai`alae School channels more resources into the classroom in ways not common in regular public schools. Currently, student to

teacher ratios are 18:1 in kindergarten and 20:1 in all other classes. This compares with ratios of 20:1 in kindergarten through 2nd grade and 27:1 in 3rd through 6th grades in regular public schools. In addition to smaller classes, the school provides teachers in art, music, Hawaiian studies, and physical education. The bi-weekly 90-minute time slots surrendered to these specialty teachers free core classroom teachers for consultation and coordination time with grade-level colleagues on curriculum and assessment. The school also provides significant professional development opportunities and budgets approximately \$30,000 to \$40,000 per year for in-school training, workshops, and conferences. Experts from private schools and colleges have been consulted to help the school advance its vision and educational techniques.

The school's non-traditional educational programs are controversial

Waiʻālae School's reform efforts began in the early 1990s, inspired by calls for improved education made by the U.S. Department of Labor, Secretary's Commission on Achieving Necessary Skills¹ (SCANS 1991), and, locally, the Hawaii Business Roundtable. Responding to an alarming underperformance of U.S. schools in worldwide tests, these groups promoted guidelines for what students must learn to succeed in the jobs of the future. Waiʻālae School's vision statement, formally stated in its detailed implementation plan written in 1994, reflected these guidelines and aspires to teach children to be creative problem solvers, self-confident risk takers, well-rounded and multidimensional, collaborative, and socially responsible individuals to prepare them for success and citizenship in the future. Guided by this vision, Waiʻālae made fundamental changes to its teaching methods and curriculum, replacing a traditional direct instruction approach with one founded on constructivist theories.

Constructivism derives from the work in developmental psychology of leading theorists, including John Dewey and Jean Piaget, who contributed to a new understanding of how the human mind learns and gains understanding. Their work concludes that learning occurs in context of an individual's own understanding of the world, so teachers should work from and build on a child's intrinsic knowledge rather than confronting it with predetermined facts. An added dimension, influenced by the work of Lev Vygotsky, suggests that learning is enhanced through social interaction between students.

Traditional teaching methods are described as direct instruction, where students are instructed in what is considered essential knowledge. Critics decry the tendency of direct instruction toward a one-size-fits-all orientation. On the other hand, constructivism is founded on the premise that students learn best by constructing personal meaning from the combination of their previous experiences and new learning materials.

Constructivism, while gaining in popularity, is subject to controversy and is but one expression of the educational community's search for a paradigm. A possible reason for the controversy surrounding various approaches to teaching, including constructivism, is the dearth of scientifically based research that can conclusively answer whether a particular educational method works or whether one method yields results superior to another. Experts in the field tend to rely on anecdotal evidence from observations and personal experience. For example, in response to our request for evidence showing the effectiveness of a teaching method, an academic expert we contacted referred to 30 years of experience as an educator and "very obvious" results from personal observation, while acknowledging that outcomes are hard to measure. Policy-makers similarly are confronted with much opinion and anecdotal experiences and little evidence from scientific research. Promoters and critics of constructivism alike tend to point to and primarily draw from their extensive experience in education in support of their position.

Educational reformers, including Waiʻālae, have difficulty objectively answering questions like: "How do you know your chosen teaching methods work and do they work better than the methods they replaced?" Answers to such questions based on objective measures are essential for policy-makers to assess a school's programs. A Waiʻālae school official responded to such questions with references to tests required by the federal No Child Left Behind Act, leading developmental psychologists, theorists who did not author the programs the school uses, and its accreditation through the Western Association of Schools and Colleges (WASC).

WASC accreditation tells policy-makers that a school has met WASC standards, but provides no quantified measures of success. Accreditation alone may not help policy-makers assess a school's quality. For example, of 14 Hawaiʻi public elementary schools with WASC accreditation, 7 schools in 2003 and 5 schools in 2004 did not meet the required yearly progress mandated under the federal No Child Left Behind Act.

Focus on internal accountability leaves policy-makers with an incomplete picture

While traditional practices rely almost entirely on tests, Waiʻālae has developed an appraisal structure for student progress based on multidimensional classroom assessments and portfolios. According to the school, the assessments consist of a multitude of continuously administered tools, including rubrics (scoring criteria to evaluate student performance on a task), interviews, observations, teacher designed tests, student self-assessments, journals, exhibitions, and projects. Portfolios are collections of selected work that span multiple learning disciplines and show a student's progress and growth in learning.

These internally focused assessments, while popular with Waiʻālae’s teachers and parents, do not provide external accountability to the Board of Education, the Legislature, and the general public. Public accountability is required by law and under the school’s charter.

Measures for the two dimensions of internal and external accountability have been described as formative and summative assessments. Formative assessments, such as portfolios, chapter quizzes, and classroom assessments, provide feedback to teachers and students for short-term adjustments to educational strategies. Summative assessments, such as the Hawaiʻi State Assessment and the Stanford Achievement Test (SAT), show how well students and schools performed compared with others in the state and nation. Summative tests are the standard for public accountability, according to the Assessment Training Institute,² a nationally recognized leader in assessment.

Both formative and summative measures are useful and necessary for their different purposes. Given that Waiʻālae’s vision and its reform efforts began as part of the response to U.S. schools’ poor performance in worldwide comparisons in the 1990s, summative measures will be important to determine the success of these reforms.

Both the Board of Education and legislators stressed the importance of public accountability for school performance. Two Hawaiʻi legislators, for example, stated in 1994: “Only through national or global standardization will we be able to benchmark the performance of our students against the rest of the world.”

Waiʻālae School, however, does not appear to share that opinion, as illustrated by its view of the Stanford Achievement Test, a multiple choice test in reading and mathematics that measures student performance against a national average. The school concluded that statewide assessments based on the SAT were not a relevant measure for its curriculum or instructional approach. According to the school, these assessments provided no useful, timely feedback to teachers or students; had someone else judge right and wrong; and disrupted ongoing instruction and projects for several months while students prepared for the test. Based on this belief, in 1995, Waiʻālae decided to discontinue participation in statewide SAT assessments.

Since 2001, Waiʻālae has been required by law to participate in the Hawaiʻi State Assessment, which incorporates Hawaiʻi Content and Performance Standards and SAT tests. To date, however, Waiʻālae has not embraced this summative form of accountability. In its 2002-03 accountability report, for example, Waiʻālae described the Hawaiʻi State Assessment, parental concerns, and pressures about outcomes of the high stakes testing as external pressures causing a fragmentation of energy and a dilution of the school’s vision, purpose, and commitment.

While Waiʻālae's participation in the Hawaiʻi State Assessment appears to address the need for summative assessment, the school's contention that such tests do not measure the outcomes the school aims to achieve calls for relevant measures that do. To date, except for a standards-referenced test administered for three years, the school has been unable to offer objective measures to serve as alternative benchmarks and provide policy-makers and the general public with tools to assess its programs. Waiʻālae needs to do a better job providing information on its performance. While individual measures provide little information on a school's programs and overall performance, a number of well-designed, readily quantifiable measures can overcome some of these limitations.

A leading Hawaiʻi private school, for example, developed a set of 53 quantifiable measures that are tracked over time. These measures are useful to demonstrate that predetermined goals are being met, while trend analyses of others can provide valuable insights and pinpoint achievement and problem areas. Parent and alumni surveys, if properly designed, can provide useful feedback and accountability measures. Repeated periodically, they can provide indications of improvements or decline in satisfaction or perception categories.

In 1998, Waiʻālae compared test results of its students that had transferred to Kaimuki Middle School with those of their classmates from other elementary schools. A Waiʻālae accountability report recommended that this process be periodically repeated; however, the school did not follow up. Similarly, a comprehensive parent survey of 1994 has not been used as a benchmark to track and report sentiments on satisfaction with the school on a regular basis.

Another avenue for providing accountability is to ensure that the school's educational programs have been shown as effective based on scientific evidence. The U.S. Department of Education advocates selecting educational programs based on rigorous scientific evidence, including randomized controlled trials, or well-matched comparison studies,³ similar to those used to test new medicines and social work programs.

***Available measures
show no benefit from
changes***

Waiʻālae School historically ranked among the best public schools in the state as measured by traditional norm-referenced tests. Today, Waiʻālae School continues as a highly ranked school with its students performing well above average in statewide tests. The preamble to Act 62, SLH 1999, however, points to charter schools as a means to define new approaches to education and accommodate the individual needs of students to allow the state to dramatically improve its educational standards. The Legislature's vision was for charter schools to improve educational standards and enhance learning. Consequently, we asked

Waiʻālae School officials whether students today receive a superior education as a result of the changes made possible by becoming a charter school. One of the board members responded, “I hope so.” The school, for the reasons discussed above, lacks quantified measures for an objective analysis.

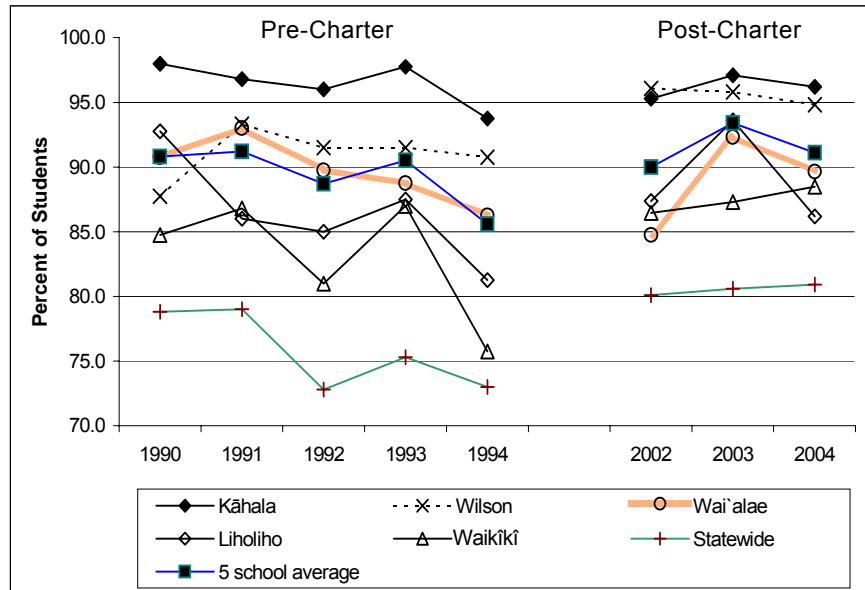
Consequently, in consultation with the Department of Education’s Planning and Evaluation Office, we undertook several analyses of existing test data from state administered tests dating back to 1990. We performed two analyses comparing data from before Waiʻālae became a charter school (in 1995) with similar data for the past three years. First, we compared Waiʻālae students’ performance with those of four schools of comparable size in the same school district (Kāhala, Liholiho, Waikīkī, and Wilson Elementary Schools) on SAT tests from 1990 through 1994 with the SAT and Hawaiʻi Content and Performance Standards sections of the Hawaiʻi State Assessment for the years 2002 through 2004. There is a gap in our comparison for the years 1995 through 2000 because Waiʻālae did not participate in statewide tests during these years and the tests were cancelled in 2001 because of a teachers’ strike. Second, we compared former Waiʻālae students’ performance with those of their classmates from other elementary schools at Kaimuki Middle School, the intermediate level school for Waiʻālae’s school complex.

From the available data, we found no evidence to support the proposition that becoming a charter school has resulted in a better education for Waiʻālae’s students. In fact, our analysis of available measures indicate that the school’s academic performance has slipped in the nine years since becoming a charter school, compared with comparable schools in the same community. The data must be interpreted with some care because periodic changes in the test versions and student population changes (currently half of Waiʻālae students live outside the district) may impact the results.

However, the analyses confirm sentiments of school staff and board members that Waiʻālae, since becoming a charter school, has academically declined in some areas. Waiʻālae’s combined SAT scores for 3rd and 5th grades for 2002-2004 in reading and mathematics, while substantially exceeding state averages, have slightly declined when compared with those of five area peer schools we selected. While Waiʻālae’s pre-charter scores are equal to or above average in the five-school comparison, its recent post-charter scores were generally equal to or lower than the five-school averages. Exhibit 2.1 illustrates the comparison graphically and Appendix A shows the supporting data.

Exhibit 2.1

Five-school Comparison of Combined Average and Above Average SAT Scores in Reading and Mathematics, 1990-1994 and 2002-2004



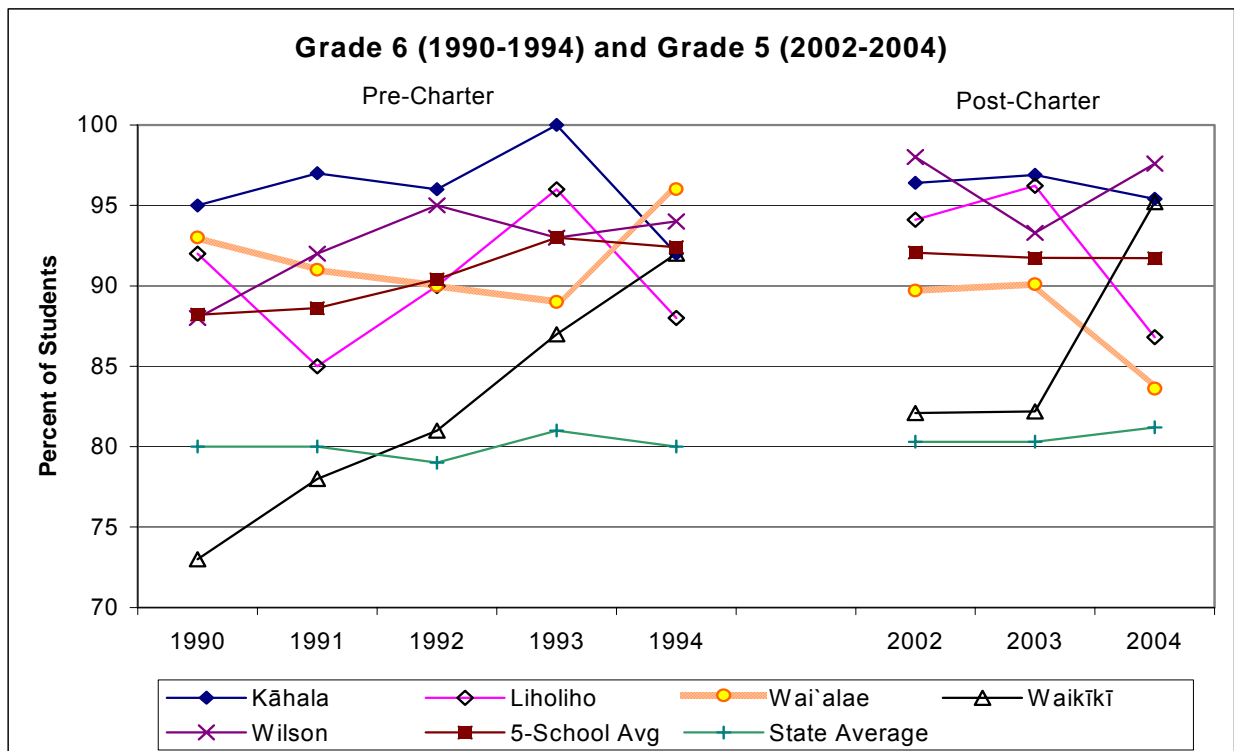
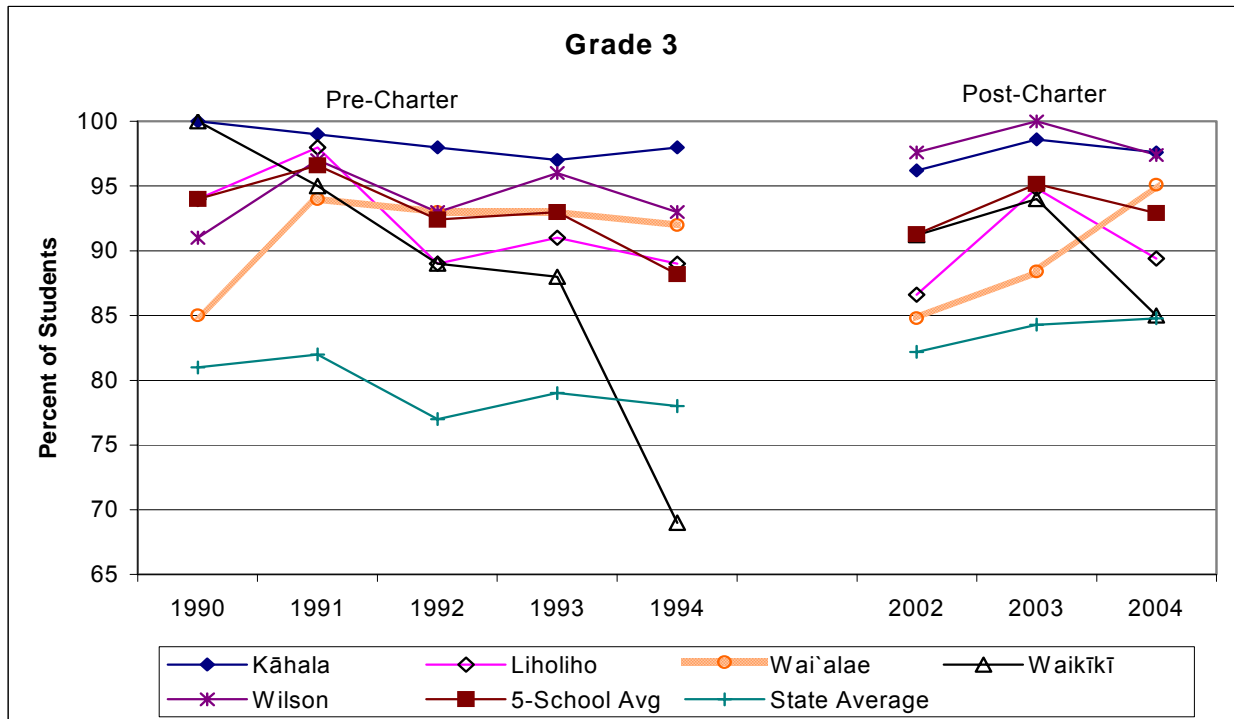
Source: Hawaiʻi Department of Education (Honolulu Star Bulletin for 3rd grade 1991)

Note: Grades tested 1990-1994 = 3rd and 6th grades
Grades tested 2002-2004 = 3rd and 5th grades

Board members and staff perceive a decline in the quality of the school, most often mentioning a weakness in its mathematics program. We found support for such a weakness in our five-school comparison of SAT test scores in mathematics. Exhibit 2.2 charts the percent of students scoring average or above for 3rd grade and 5th or 6th grades (5th grade for 2002-2004 and 6th grade for 1990-1994). Waiʻālae's scores were close to or above average in pre-charter years. For post-charter years, Waiʻālae's scores were generally below the five-school average, although the 3rd grade score in 2004 reflects a hopeful exception. The school similarly ranked below average in our five-school comparison of Hawaiʻi Content and Performance Standards mathematics scores for 3rd grade in the past three years as shown in Exhibit 2.3.

Exhibit 2.2

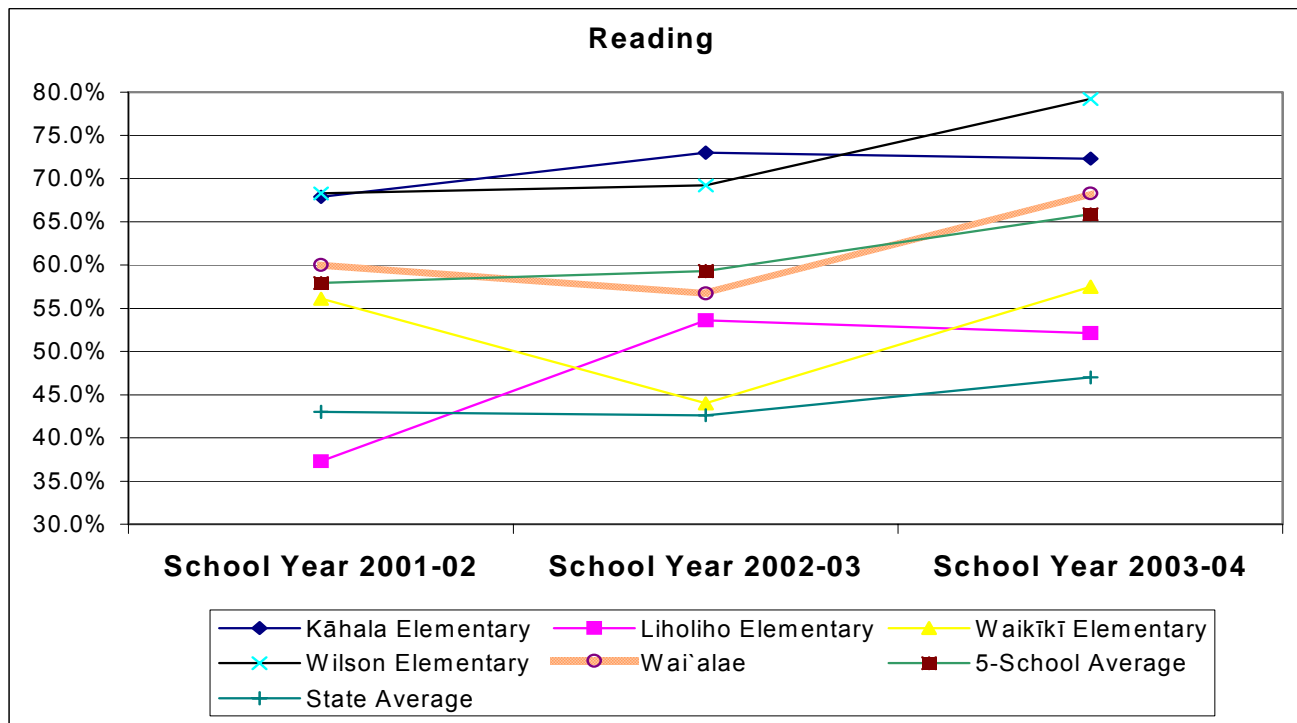
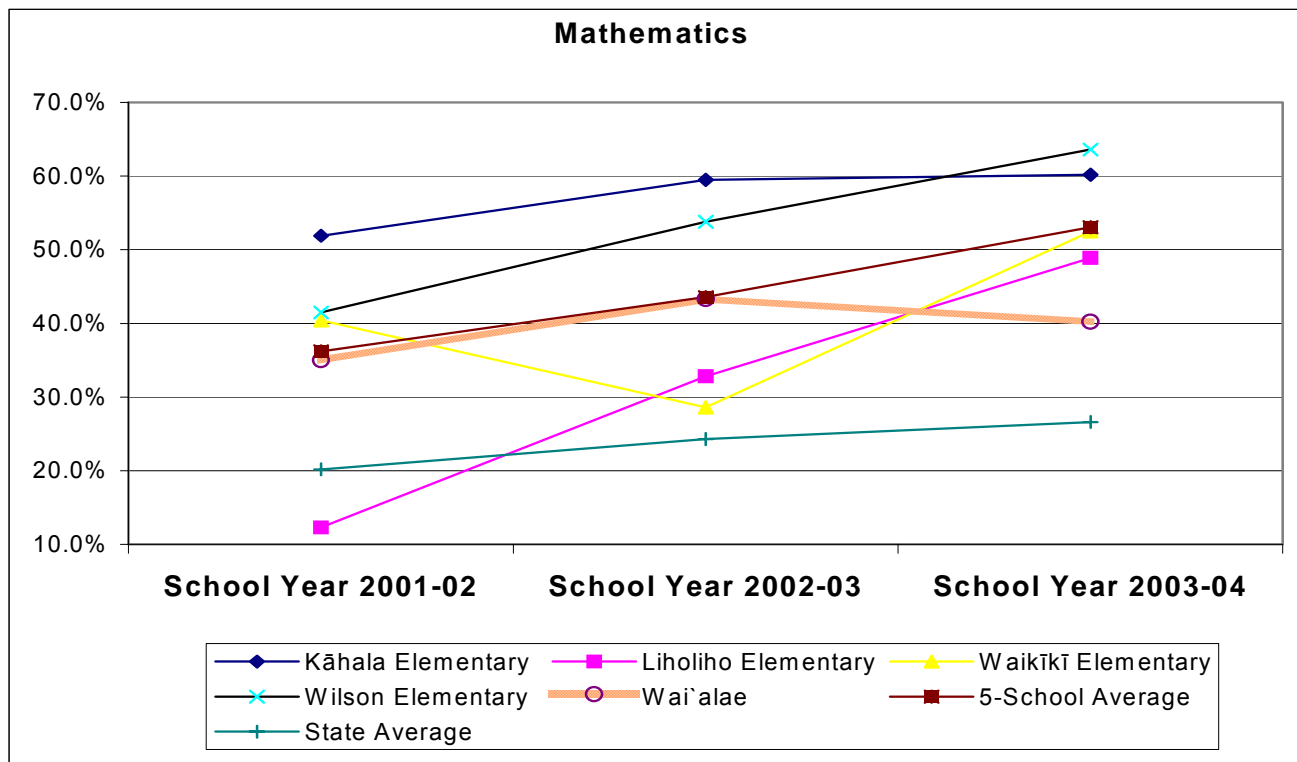
Five-school Comparison of Percent of Students Scoring Average and Above Average in SAT Mathematics Test, 1990-1994 and 2002-2004



Source: Hawai'i Department of Education (Honolulu Star Bulletin for 3rd grade 1991)

Exhibit 2.3

Five-school Comparison of 3rd Grade Scores for Hawaiʻi Content and Performance Standards Tests in Mathematics and Reading



Source: Hawaiʻi Department of Education

Waiʻālae expected these tests of Hawaiʻi Content and Performance Standards to be a better measure of student knowledge than the SAT. Appendix B includes the Hawaiʻi Content and Performance Standards test data we used to perform our analysis.

In our second analysis, we compared 2002 through 2004 SAT scores of former Waiʻālae students at Kaimuki Middle School with those of students that came from all other elementary schools, approximating a similar study of 1995 through 1997 data. We found that 8th graders who attended Waiʻālae School until 5th grade show comparable to slightly lower reading and math scores compared with their peers from other schools. Eight to ten years ago, Waiʻālae students had clearly higher scores than their peers from other schools. These comparisons are shown in Exhibit 2.4. Discontinuation of Stanford Achievement Tests for 6th graders statewide after 1998 compelled us to compare scores for new 6th graders at Kaimuki Middle School for the 1995-1997 period with those of 8th graders for 2002-2004, which may affect the comparison. However, it is an example of the type of benchmarking that can be used to improve accountability for the school's performance. Performed regularly over time, such analyses become more valuable as trends emerge. The scores used for our analysis are shown in Appendix C.

The School's Board Needs to Strengthen Its Governance and Administrative Oversight

Waiʻālae School has been a charter school for more than nine years. During this time, the school's board has not developed into an effective governance body consistent with a \$3 million operation, responsible for almost 500 students. Lacking structure and leadership, current and past members describe the board as ineffective, even dysfunctional, dominated by a minority, and resistant to change. Charged with adopting goals to challenge the school to reach for a higher level, the board has not transitioned to a level of maturity more typical for its age nor has it developed long-term strategies for the school's future.

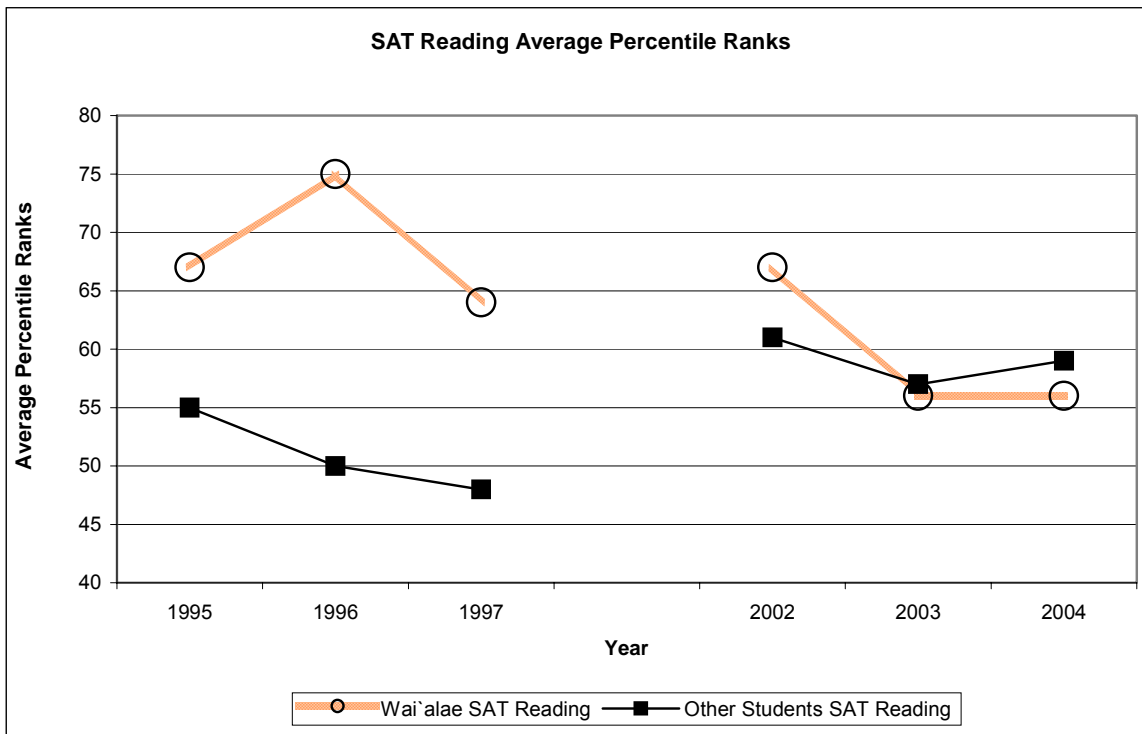
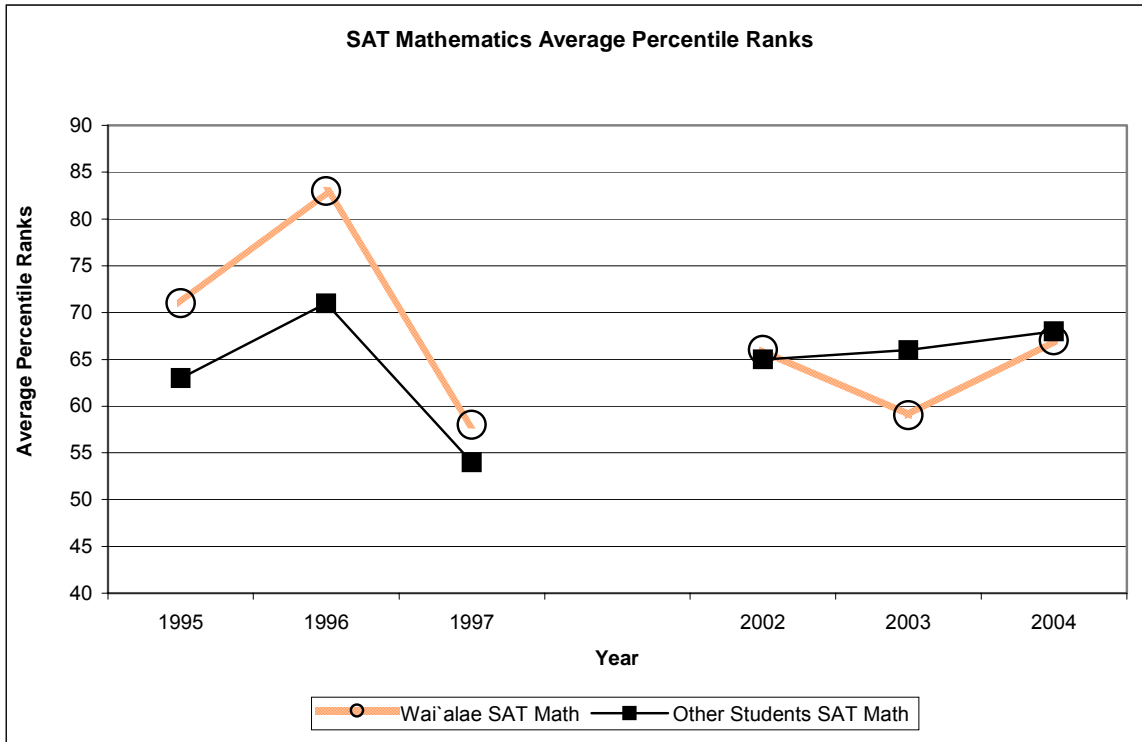
Leadership weaknesses that impair the board's effectiveness stem from a flawed selection process for board members, inadequate by-laws, and substituting the Department of Education's processes for school policies and procedures. Moreover, the board has not provided the oversight needed to ensure the school's compliance with student health and safety issues and a full accounting for its use of public resources.

The school's board lacks the structure to govern effectively

The school's board adheres to a flawed process to select its membership. Membership is based on representation rather than ability to contribute needed skills and experience. The board's membership is concentrated on present and past members of the school community instead of the diversity available from the broader community usually found on

Exhibit 2.4

Kaimuki Middle School Mathematics and Reading SAT, Comparing Former Waiʻālae Students with Students from Other Schools, 1995-1997 (6th Grade) and 2002-2004 (8th Grade)



Sources: Waiʻālae School, 1995-1997; Hawaiʻi Department of Education, 2002-2004.

successful governance bodies. The board's by-laws and policies lack the detail and substance to provide effective guidance and the clarity of intent that, for example, are important to deal with legal liability risks. Finally, the absence of a long-term strategic plan for the school's future exemplifies its inability to transcend the developmental stage and reach for the organizational maturity necessary to advance the school to a higher level of achievement.

A lack of diversity and expertise impairs the board's ability

Under its by-laws, all but four of a possible 15 board members represent parent or employee stakeholder groups with a direct interest in the school. The board does not control the appointment of these stakeholder representatives as they are selected by their respective groups. As a result, the current board appointed only three of its 11 members. This selection process is unsound because the prime selection criterion is representation of "insider" interests rather than an ability to contribute needed expertise and skills. The concept of selecting board members based on interest groups is at variance with best practices. We note, however, that the Wai`alae board's selection process comports with statutory requirements. The provision in the charter school law that requires interest group representation for conversion charter school boards should be reevaluated.

The current 11-member board consists of four employees, three parents, three community members (all former or current parents), and a student representative. While the charter school law requires that one member each of six interest groups (principals, instructional staff, support staff, parent, student, and the community at-large) is represented, Wai`alae's board exceeds these requirements. Lacking control over the appointment of all but three of its members, the board is unable to fulfill one of its most important functions: identifying and recruiting a diverse and highly qualified membership that meets the needs of the school. Consequently, the current board, with all members having a direct or historical link to the school as a student, employee, or parent, lacks diversity and experience in its membership consistent with an effective governance body.

Interviews and our review of guidelines on best practices in governance for charter schools, including the *Massachusetts Charter Schools Trustees Guide*⁴ and the Charter Friends' *Charter Schools: Creating Effective Governing Boards*,⁵ support the notion that board composition has a major impact on board success. A key prerequisite for a thriving charter school board is a membership with the diverse expertise needed to oversee the complex operations of a school. Recruiting well-qualified members is one of the most important board development functions. Financial, business, board governance, and administrative expertise are

typical skill sets recruited by successful boards. Rather than being recruited for their expertise, we found that some Waiʻālae board members instead join the board because of their dissatisfaction with the school's governance, while others must be persuaded to fill a vacancy representing an interest group. Overall, we found the board lacks members with business and financial expertise needed to oversee a \$3 million operation.

Furthermore, we found that effective boards tend to have at least two-thirds of the board's membership made up of community members who are emotionally detached from the school's day-to-day affairs. If parents serve on the board, they should be selected for needed skills or qualities they bring to the board, not because they are parents. Employees, too, face an inherent conflict of interest when serving on a school board because they have a direct or indirect personal interest in many board decisions. Having a student member on a primary school board is at best a questionable practice because it places unreasonable responsibilities and accountability on a minor. Typically, taking care of employee and student interests and ensuring that their concerns are communicated to the board, if necessary, is a responsibility of school management.

Voting membership for the school's leader—in Waiʻālae's case the chief educational officer—is inappropriate according to the *Massachusetts Charter Schools Trustees Guide*.⁶ However, Section 302A-1191(d)(1)(A), HRS, mandates participation of the "principals" group. This and other statutorily mandated positions on conversion charter school boards are in conflict with best practices for effective governance. The board should be allowed to determine its composition without impediment. The statutory provisions for Hawai'i's new century charter schools do not subject start-up charter school boards to membership requirements and allow them to determine their composition. The Legislature should consider extending the same flexibility to conversion charter school boards.

Vague guidelines and poor records epitomize weak leadership

Inadequate leadership resulted in vague and incomplete by-laws, board operating rules, and policies. In addition, a lack of clearly assigned responsibilities for board members, board committees, and school management hamper its development. Finally, poor records of the board's proceedings and decisions show inadequate management of its own affairs and may expose the board and the school to legal liability if its actions are challenged and cannot be supported in its records.

Waiʻālae School's board has chosen a free-flowing consensus-based governance style that avoids assignment of specific titles, roles, or duties to individuals. This governance model is based on the philosophical

underpinnings outlined in the school's vision and mission. Its most distinctive feature is decision-making by consensus, which searches for win/win solutions by encouraging and listening to everyone's input. After over nine years, however, Waiʻālae's board still struggles with its governance model. Interviews with current and past board members paint a picture of weak leadership, dissent, intolerance, and focus on process rather than good governance. Members report difficulties conducting meetings within targeted timeframes, with some meetings extending past five hours. In practice, the consensus model has not averted some of the very kinds of problems it is designed to prevent.

According to the best practices guide, *Charter Schools: Creating Effective Governing Boards*,⁷ clear and detailed descriptions of the roles and responsibilities for board members, committees, officers, and staff are required for an effective board. We found a general lack of these structural components at Waiʻālae's board. There are, for example, no officers. The chairperson, a second chairperson, and a recorder are the only functionaries provided for in the by-laws. Although the chairperson has been assigned, the second chairperson and recorder positions have not been formally appointed. The by-laws describe the chairperson's function as "serves to facilitate meetings" and "assumes the usual duties of the chairperson representing the interests of the Waiʻālae School in all occasions."

Further, the by-laws do not define the roles and authority for the board's three standing committees. Inadequately defined authority and responsibilities resulted in the poorly handled selection of a new chief educational officer and strong objections to the work of a committee formed to screen applicants for the position. This caused severe dissent on the board which reached a level that prompted the successful candidate to ask all board members to sign a written statement of support.

The board's committees are predominantly made up of board members. Committees should recruit individuals with required expertise. They are an ideal proving ground for prospective board members and a vehicle for engaging volunteers who have valuable skills or expertise but are not willing to commit to a full board membership.

We found that the by-laws also exhibit glaring omissions. They lack provisions dealing with conflicts of interest, quorum for decision making, term limits, removal of members, and rules of order. While more traditional boards' by-laws incorporate established rules of conduct, such as Roberts Rules of Order, Waiʻālae's board feels that such rules are incompatible with its consensus orientation. However, the vague meeting ground rules in its by-laws such as "perceptions are neither right nor wrong, they just are ... and are real to the perceiver," "there are no

experts,” and “listen as an ally” provide little guidance for the board to govern a \$3 million operation. Not surprisingly, the board finds itself having to make up rules as it goes along.

Similarly, the official set of policies submitted to us expresses the school’s values but lacks specificity. Governance policies, according to the *Massachusetts Charter School Trustees Guide*,⁸ are critical, far-reaching decisions made to embody an idea in writing, delegate the authority to the school management, and serve as a guide to action. We found that in addition to lacking specifics on who is authorized and responsible for what, some policies are inadequate to serve as a guide to action.

For example, according to the by-laws, one of the board’s roles is to “adopt a policy for the employment, evaluation, and termination of employment at the school.” However, its policy on human resources, adopted April 20, 2000, restates the school’s mission and describes its personnel as leaders “who do what has to be done” and who “demonstrate high character, honesty, and integrity.” The policy also portrays its personnel as lifelong learners, supporters of a collegial atmosphere, considerate of others, and embracing diversity.

These descriptions of desirable traits do not identify what and how authority has been delegated and lack the specificity to guide school management in translating the policy into action. Moreover, neither this nor any of the other eight policies adopted by the board include a reference to meeting the school’s obligations under its charter, complying with applicable laws, and being accountable to the Board of Education for its actions.

Board governance policies should guide school management in developing operating policies and procedures. The board’s role is to ensure such policies and procedures are in place and followed. In the area of procurement, for example, the law requires each charter school to adopt internal procurement policies and procedures consistent with the goals of public accountability and procurement.

Waiʻālae’s board has not fulfilled its role with regard to procurement policies and procedures. The school informed us that it follows the Department of Education policies and procedures but has no written policy formalizing their adoption. In practice, we found that the school does not consistently follow the department’s procurement policies and procedures. For example, a contract for food services costing over \$152,000 in the first five months was awarded without competitive sealed proposals. Under the department’s procurement rules, such proposals are required for purchases over \$25,000.

Poor management of its own affairs is evident from the insufficient records of its proceedings and decisions. We found serious omissions in our review of board minutes between August 2003 and February 2005. Board minutes, known as the “group memory,” exclude important facts and do not consistently state when consensus decision-making failed and an issue had to be decided by vote.

The minutes also obscure the existence of conflicts of interest. In September 2003, for example, the board decided to award a pay raise to teachers. This created a conflict of interest for all teacher members, arguably all employee members of the board, as the decision affected their economic interests directly or indirectly. The minutes, however, indicate that four of five employee members, including two teachers, participated in the decision-making process despite their conflict of interest. One employee member, a teacher, declined to participate in the consensus decision, but the minutes lack details on the reason other than that the employee had “concerns.”

We found additional instances where minutes failed to provide a clear description of decisions made and how consensus was reached. The February 2004 minutes, for example, refer to a budget being approved at an earlier meeting. However, the minutes of that earlier meeting show only that a wage increase was approved, lacking any reference to deliberations and decisions made to the approval of the school’s annual budget. Approval of the school’s budget is one of the board’s most important decisions.

Moreover, the board’s minutes do not provide a clear record of member attendance. Attendance listings do not consistently identify present and absent board members. As a result, the board has no clear record of members’ presence at meetings, which is needed to identify and evaluate members’ commitment and productivity. The attendance listings for 15 of 24 board meetings we reviewed do not distinguish between members and guests. In addition, the minutes do not consistently recognize members as they join or resign from the board. Some meeting minutes do not identify the number of members in attendance. We identified what appear to be at least nine personnel changes on the board that are not reflected in the minutes.

Board minutes are documents used by the public, government agencies, and the courts to review actions taken by a board. Insufficient documentation of actions and decisions may call into question the adequacy and appropriateness of decision-making, thereby opening the school and the State to legal liability.

A recent opinion regarding the applicability of the State’s public meetings law may encourage Waiʻālae to review its meeting practices, including its

minutes. In 2003, the Office of Information Practices opined that charter schools are not subject to Chapter 92, HRS, commonly known as the “Sunshine Law.”⁹ The opinion was based on a common interpretation of a charter school law provision that exempts charter schools “from all applicable state laws.” According to this interpretation, charter schools are exempt from all state laws except those relating to health, safety, and collective bargaining. In our Report No. 05-01, *Audit of Na Wai Ola Waters of Life Charter School*, we questioned this interpretation and recommended that the provision be clarified.

For this audit, we requested that the Office of Information Practices review its 2003 opinion as more recent statements by the attorney general indicated a differing interpretation of the charter school law that would limit the exemption to laws applying to public schools. In its Opinion Letter No. 05-09,¹⁰ the office reversed its earlier 2003 opinion and stated that charter schools and their boards must comply with the Sunshine Law and the State’s Uniform Information Practices Act. Quoting statements from the attorney general, the Office of Information Practices concluded that charter schools and their boards are public agencies and boards respectively, and thus subject to laws that apply to other state agencies and boards. Subsequently, however, the 2005 Legislature amended the charter school law to exempt charter schools from the State’s Sunshine Law. This blanket exemption from public accountability differs from practices in other states. The task force on charter school governance created by the Legislature should consider whether this exemption is in the public’s best interest.

Coherent strategies for long-term success are overdue

One of the Waiʻālae board’s stated responsibilities is to “adopt goals that challenge the school community to reach for a higher level.” By allowing itself to remain in what its chairperson describes as a developmental stage, the board has not led by example. Weak leadership and the ongoing struggle for an effective governance model may explain why the school board has not progressed to a stage of maturity consistent with its more than nine years of experience. Moving a board to a higher level of maturity will require significant changes in its membership and focus, including a greater reliance on the school’s managers and an orientation towards long-term planning. In establishing a non-profit organization and an endowment fund, Waiʻālae has taken promising initial steps in that direction, but such actions typically follow, not precede, the articulation of a strategic plan. A long-term strategic plan has been discussed as a priority since 1996 but to date has not been developed.

Strategic plans outline long-term, typically at least five years, planned accomplishments and time schedules for their implementation. Financial projections for the duration of the plan are usually incorporated. Planned

Safeguards to ensure children's health and safety may not be effective

accomplishments are general objectives, based on a school's vision and mission statements, broken down into well-defined performance goals that allow an objective assessment of their achievement in the future. Performance goals, often referred to as outcomes, should be quantitative or directly measurable. The planned outcomes are linked to the long-term financial plan.

We found only one objective measure in the school's accountability literature, a target increase of 4 percent in the Hawai'i Content and Performance Standards test scores for each of the three school years 2003-04 through 2005-06. Unfortunately, the school proclaims little regard for this measure's validity as a measure of its success.

Health and safety requirements specified by law include criminal background checks and tuberculosis testing for persons who come in close contact with children. Waiʻālae School has not adopted coherent policies and procedures that implement its commitment to student health and safety and that assign responsibility for compliance. Instead, Waiʻālae relies heavily on the Department of Education's processes and policies in complying with these statutory requirements and has not assumed the responsibility for ensuring compliance although the school is the authorized hiring agency. For the majority of its staff, the school has no documentation showing that health and safety checks have been performed and therefore lacks assurance that it is in compliance with the law. We found that inconsistencies in requirements for employees, contractors, and volunteers may weaken the school's health and safety safeguards and expose the State to the risk of lawsuits.

We found that personnel files for 31 of 42 (74 percent) of Waiʻālae's employees subject to criminal background check requirements contain no documentation showing that the employees have been fingerprinted, a necessary first step for obtaining criminal background checks. The school relies on the Department of Education to complete this check but receives no confirmation from the department that the check has been completed.

Similarly, 34 of the 52 (65 percent) employee files we reviewed did not contain a tuberculosis certificate required by law. Section 11-164-6, Hawai'i Administrative Rules, entitled *Tuberculosis*, requires that all employees and volunteers serving more than 15 days who come in contact with children must submit a certificate showing that they are free of tuberculosis to the school's principal or administrator. Principals or school administrators are responsible for ensuring that these documents are received from employees and volunteers prior to starting employment or service.

According to a long-serving board member, Wai`alae does not see a need to adopt policies relating to the health and safety of its students as the school utilizes the Department of Education's process. Even so, the school, not the department, is ultimately responsible for its personnel actions and employees. Oversight over compliance with laws and mitigating the risk of litigation are important responsibilities of a charter school board. The school should develop appropriate policies and procedures to guide its compliance and ensure that such compliance is properly documented.

In addition, a lack of policies and procedures extending these protective measures to volunteers and contractors may compromise students' health and safety and raises the risk of legal liability. Wai`alae does not require volunteers and contractors to provide tuberculosis certifications. The contract with its food services vendor provides for the assignment of students to the kitchen. However, it does not require criminal background checks and tuberculosis certificates for contractor staff and the school cannot document that contractor staff have undergone such checks. Volunteers and the contractor's kitchen workers, who provide services on-site in Wai`alae's cafeteria facilities, have contact with children, in some cases comparable to that of employees who are subject to criminal background and health checks.

By contrast, the director of an unrelated major volunteer organization we contacted stated that as a matter of policy, all its volunteers for child-related programs are required to undergo criminal background checks and submit tuberculosis clearances before being allowed contact with children, citing avoidance of legal liability as one of the major reasons. Wai`alae should consider adopting similar safeguards for its volunteers and contractors who have contact with children.

Fiscal accountability suffers from longstanding accounting defects and questionable application of laws

Wai`alae has not addressed persistent problems with its accounting and financial reporting capabilities and is not adequately accounting for its stewardship of public resources. In addition, some financial practices raise questions about applicability of state financial administration laws to charter schools. Specifically, the authority for carrying forward surplus amounts that may exceed \$500,000 is not clear.

Inefficient, unsuitable accounting systems persisted for nine years

Wai`alae's accounting systems' financial reporting capabilities are a poor match with the board's and school management's needs. The systems used by the school are unable to produce information in a form that is useful to the school and school staff has difficulty deciphering available reports and using the existing account structure in a meaningful way.

In addition, the available financial information is fragmented, such that a comprehensive report of the school's fiscal activities must be compiled from several separate sources. As a result, financial reporting is disjointed and incomplete, and lacks assurance for accuracy.

One of the major purposes of an accounting system is to produce reports that are needed by a school's financial decision makers. Also, accounting systems should be designed to minimize duplication in data entry and reporting that can unnecessarily divert resources and increase the risk of errors. Wai`alae School uses the Department of Education's financial management system (FMS), which is a poor match for meeting its financial reporting needs. The department's system is designed to satisfy its complex reporting requirements and lacks the flexibility to accommodate modifications, recommended by Wai`alae's auditors in 1996, that could make its reports more relevant to the school's financial decision makers.

In an effort to compensate for the system's incompatible reporting capability, the school's business manager manually transfers information from system reports into a more useful spreadsheet format. This translation process is duplicative and time-consuming and depends on the business manager's memory. Should this key employee become unavailable, this critical information similarly would be unavailable, as there are no written templates, training, or procedures manuals to duplicate the process. Furthermore, the reliability of these manually compiled reports cannot be assured because the information is not reconciled with the originating reports. The 1996 audit also faulted the school for not reconciling its management reports to the originating Department of Education reports.

Attempts by Wai`alae to add needed modifications to the department's accounting system were unsuccessful. Thus, to facilitate its financial reporting needs, Wai`alae can automate the data translation from department reports into a format useful to the school or sever ties to the department and install its own accounting system. In the meantime, the Charter School Administrative Office is coordinating efforts to address accounting and financial reporting issues faced by all charter schools and pooling the experience of other schools and experts on the subject. Wai`alae School can benefit by participating in that project.

Board inaction to address these long-standing problems is underscored by its failure to adopt policies and procedures recommended by auditors in 1996. The auditors cited a need for policies and procedures for all significant functions, including personnel, payroll, inventory control, receipts, purchasing, and administrative and operating functions, urging the school to set a timetable for their preparation and completion.

The school, acknowledging its responsibility and the critical need for these documents for administrative effectiveness, planned to act during the 1996-97 school year as part of its strategic planning effort, but to date, has not progressed beyond a staff handbook. Instead, Waiʻālae relies heavily on Department of Education processes, which are not always followed.

Erroneous interpretation of audit requirements leaves a gap in accountability

The school does not produce comprehensive financial statements in accordance with generally accepted accounting principles and has not submitted annual financial audits to the Board of Education for at least four years. A multiplicity of divergent estimates and a lack of coherent reporting made it impossible for us to obtain accurate information about the school's bottom line. For example, the Department of Education reports a \$587,315 general fund carryover balance for FY2003-04, while the school board's minutes reflect an estimated \$312,820 surplus. Up to \$250,000 in additional funds are held outside the state treasury, controlled by the school, and accounted for apart from appropriated funds. A financial statement identifying the school's overall surplus or loss for FY2003-04 is not available.

Lacking comprehensive financial reports, the school has not adequately accounted for its stewardship of the public resources entrusted to it. Having an accumulated surplus permits the school to be satisfied with estimates of its financial results for management purposes. Without comprehensive financial statements, however, the school cannot present a complete picture of its financial activities and condition, including all resources received and used. Providing such a picture is basic to public accountability and the main purpose of producing audited financial statements.

According to its business manager, the school discontinued financial audits because the school uses the Department of Education accounting system, which is audited annually. The school believes that it does not need its own audit. This argument fails on two levels: first, the school has an obligation under the charter school law to account for its stewardship of public funds, which includes providing financial audits; and second, substituting the Department of Education's audited financial statements does not satisfy Waiʻālae's responsibility to account for its fiscal actions. Further, department-wide audits provide only partial assurance that the school maintains effective safeguards to protect its assets and keeps accurate and complete records.

The charter school law includes several provisions referring to financial accountability and annual financial audits which communicate the

Legislature's intent for charter schools to provide adequate accountability for their fiscal activities. The attorney general and the Charter School Administrative Office, agreeing with this proposition, informed us that they see no reason why Waiʻālae should be exempt from providing audited financial statements. However, further clarification of the law, including specific references to compliance with generally accepted accounting and auditing standards for financial accountability, can provide better guidance to charter schools.

Moreover, standards promulgated for government accounting state that financial statements for government entities should be prepared in accordance with generally accepted accounting principles. These standards identify accountability as the paramount objective of financial reporting. Accountability is based on the transfer of responsibility for resources or actions from the citizenry to another party, such as the management of a government entity. Waiʻālae's governing board, entrusted with public resources and responsible for overseeing the operation of the school, falls under this mandate. Its failure to produce and publish comprehensive financial statements deprives the parties empowered to act in the place of the citizenry—mainly the Board of Education and the Legislature—of the means to assess the school's performance and fiscal responsibility.

The school's fragmented financial reporting makes it difficult to ascertain its fiscal status and a lack of comprehensive statements or reports showing all resources received and used further clouds Waiʻālae's accountability. We received, for example, three separate reports on segments of its fiscal operations, one for its budgeted funds, another for local school accounts, which include up to \$120,000 per year in donations and reimbursements, and a third for most state and federal funds received. The school's budget accounts for only \$2.2 million of over \$3 million in state and federal money at its disposal for FY2004-05. In addition, the accounting records exclude the effect of some services paid by the Department of Education directly, including salaries of at least two employees.

Waiʻālae School is not subject to the same safeguards and checks and balances over fiscal resources as are departmental schools. While the Department of Education processes Waiʻālae's expenditures of appropriated funds, thereby subjecting these to the department's controls, oversight over other financial transactions is less rigorous for charter schools than for regular department schools. The department's internal auditor, who is responsible to ensure the effectiveness of checks and balances within the department, does not have jurisdiction over charter schools. As a result, charter schools' accounting practices, including those relating to local school accounts that are used to manage non-appropriated funds, receive less scrutiny than regular department schools.

Finally, the absence of financial audits, financial expertise on the board, and comprehensive, accurate, and reconciled accounts and reports, compounded by reliance on one employee for financial reporting, make the school's controls for preventing and detecting fraud and errors weak. We did not perform tests for the presence of fraud and errors, and therefore found no indication that such exist. However, these control weaknesses add weight to the need for improved financial systems and regular audits.

Authority to carry forward unspent balances should be clarified

The charter school law was created with the intent to reduce bureaucratic burdens on charter schools, but also preserve certain benefits enjoyed by agencies of the State. We found, however, some ambiguities and inconsistencies with regard to the application of laws governing agencies of the State. One of these issues is the authority to carry forward unused fund balances from year to year. Generally, appropriated state funds that are not used up at the end of the fiscal year revert back to the State. While the Department of Education has a limited exemption to this rule, the charter school law does not extend that exemption to charter schools. Wai`alae has been carrying forward a substantial surplus from year to year on the education department's accounts.

We asked the Department of Budget and Finance about Wai`alae's authority to carry forward unspent balances. The department, apparently wrestling with the vagueness of the charter school law, was non-committal, indicating that this practice may be permissible by law, but adding that it opposes specific authority in the law for charter schools to carry forward unused balances. The Department of Budget and Finance cites the difficulties it has experienced in obtaining financial information from charter schools as one of the reasons for its opposition.

However, recent statements by the attorney general appear to limit exemptions for charter schools from state laws applicable to education only. Laws applicable to the general public or other state agencies and entities therefore also apply to charter schools. Thus, following the attorney general's interpretation, charter schools that carry forward funds may be in violation of state budget laws. This points to a need to clarify the charter school law to reflect the Legislature's intent and provide guidance on this issue.

Issue for Further Study

Health and safety checks are not consistent for all individuals who may come in close contact with children. Different statutory requirements are in place for school bus drivers and Department of Education employees.

No requirements are in place for criminal background checks of volunteers and contractors. Volunteers must provide only a tuberculosis certificate. With about 8,000 hours of volunteer services and outside contractors providing food services on site in Wai`alae's facilities, Wai`alae's example shows the need to determine whether the health and safety requirements for individuals who may come in close contact with children are practical, sufficient, and effective. Appropriate alternatives should be explored if the existing safeguards cannot reasonably be applied to all persons in a position to harm a child.

California law requires background checks for teachers prior to employment. Other states have similar up-front criminal background check requirements for volunteers and contractors who will have contact with children. In Hawai'i, school employees are employed conditionally pending receipt of a criminal background check and may be terminated later if a criminal history report reveals items indicating a potential danger to children. Further work is needed to determine whether this delay and resulting exposure of children is prudent or whether statutory changes are needed. In addition, unlike Hawai'i, some states have laws that require monitoring for criminal activities occurring after hire. Further work is needed to determine whether such provisions are warranted to improve the safety of children in Hawai'i.

Conclusion

Wai`alae School has not provided sufficient information to publicly account for the effect on its students from major changes to its educational programs, which are empirically untested. Standards-based test scores do not validate that Wai`alae's charter school status has resulted in improved student outcomes; in fact, they indicate that the school has declined in some areas. While the school does not regard these tests as valid measures of its efforts, it has not met its responsibility to prove it is enhancing student outcomes as required by charter school law.

The school board's weak leadership and a lack of structure hinder its ability to fulfill its responsibilities. As a result, management of its own affairs is inadequate, policies and procedures provide little guidance, safeguards for students' health and safety are incomplete, and longstanding accounting problems have not been addressed. In addition, after operating for almost a decade, the board is still in a developmental stage and has not reached a level of maturity that enables it to focus on the school's future and long-term success. The board must exercise leadership and vision to foster Wai`alae's growth as a charter school and solve accountability gaps to the Board of Education, the Legislature, and the public.

Recommendations

1. Waiʻālae School should:
 - a. Adopt and include in its accountability measures indicators that supplement the available standards-based scores to give policy-makers the information needed to assess the quality of the school's programs. Such measures may include benchmarks, surveys of parents and former students, or scientific support for the efficacy of the programs used at the school;
 - b. Revise its by-laws to:
 - 1) Constitute its board based on ability to contribute skills and expertise needed to advance the school to higher levels, enable it to identify and recruit desirable individuals, and appoint its membership;
 - 2) Include provisions for conflict of interest, quorum for decision-making, and rules of order. The board should also consider adding provisions governing removal of members and term limits for members; and
 - 3) Establish clear responsibility assignments for the board, its members, committees, and the school's management;
 - c. Adopt comprehensive policies and procedures for all major functions, including accounting, personnel, purchasing, and administrative and operating functions;
 - d. Develop long-term strategies and a plan for the school's future, including objective, measurable goals; and
 - e. Develop a plan for implementing effective and efficient financial reporting capabilities that meet the school's needs. If such capabilities cannot be accommodated through the Department of Education's financial management system, the school should work with the Charter School Administrative Office to develop a solution.
2. The Legislature should evaluate whether to amend appropriate statutes to:
 - a. Allow conversion charter school boards the same flexibility given to other charter schools in determining the composition of their governing board by eliminating the group representation requirements mandated by Section 302A-1191, HRS;

- b. Provide specific authorization to charter schools to carry over appropriated funds from one year to the next; and
- c. Clarify requirements and appropriate formats for charter school annual financial accountability and related audits. Further clarification may be needed for conversion charter schools that use the Department of Education's accounting system. Consideration should be given to requiring that charter schools apply generally accepted standards in accounting and auditing.

This page intentionally left blank.

Appendix A - Stanford Achievement Test Data for Exhibits 2.1 and 2.2

Combined Schoolwide Scores for Reading and Mathematics, Five-school Comparison of 3rd and 6th Grades (1990-94) and 3rd and 5th Grades (2002-04)

School	1990	1991	1992	1993	1994		2002	2003	2004
Kāhala	98.0	96.8	96.0	97.8	93.8		95.3	97.1	96.2
Liholiho	92.8	86.0	85.0	87.5	81.3		87.4	93.6	86.2
Waikīkī	84.8	86.8	81.0	87.0	75.8		86.5	87.3	88.5
Wilson	87.8	93.3	91.5	91.5	90.8		96.1	95.8	94.8
Wai`alae	90.8	93.0	89.8	88.8	86.3		84.8	92.3	89.7
5-school Average	90.8	91.2	88.7	90.5	85.6		90.0	93.2	91.1
Statewide Average	78.8	79.0	72.8	75.3	73.0		80.1	80.6	80.9

Source: Hawai'i Department of Education (Honolulu Star Bulletin, 3rd grade 1991)

Average and Above Average Scores in Reading and Mathematics, 3rd and 6th Grades (1990-94), 3rd and 5th Grades (2002-04)

School	1990				1991				1992				1993			
	Grade 3		Grade 6		Grade 3		Grade 6		Grade 3		Grade 6		Grade 3		Grade 6	
	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma
Kāhala	99	100	98	95	95	99	96	97	95	98	95	96	97	97	97	100
Liholiho	90	94	95	92	80	98	81	85	71	89	90	90	80	91	83	96
Waikīkī	89	100	77	73	87	95	87	78	73	89	81	81	86	88	87	87
Wilson	89	91	83	88	94	97	90	92	89	93	89	95	90	96	87	93
Wai`alae	85	85	100	93	92	94	95	91	91	93	85	90	83	93	90	89
5-School Average	90	94	91	88	90	97	90	89	84	92	88	90	87	93	89	93
State Average	76	81	78	80	76	82	78	80	64	77	71	79	66	79	75	81

School	1994				2002				2003				2004			
	Grade 3		Grade 6		Grade 3		Grade 5		Grade 3		Grade 5		Grade 3		Grade 5	
	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma	Rd	Ma
Kāhala	94	98	91	92	94	96	95	96	96	99	97	97	96	98	95	95
Liholiho	74	89	74	88	81	87	88	94	91	95	92	96	83	89	85	87
Waikīkī	62	69	80	92	93	91	80	82	92	94	80	82	85	85	89	95
Wilson	88	93	88	94	93	98	96	98	95	100	95	93	96	97	88	98
Wai`alae	75	92	82	96	79	85	85	90	97	88	94	90	96	95	84	84
5-school Average	79	88	83	92	88	91	89	92	94	95	92	92	91	93	88	92
State Average	63	78	71	80	80	82	78	80	82	84	76	80	82	85	76	81

Note: Rd = Reading, Ma = Mathematics

Source: Hawai'i Department of Education (Honolulu Star-Bulletin, 3rd grade 1991)

This page intentionally left blank.

Appendix B - Five-school Comparison of Hawai'i Content and Performance Standards Test Schoolwide Combined "Meets" and "Exceeds" Proficiency Percentages for Reading/Mathematics, and Average Writing Percentages, 2002-2004 (3rd and 5th Grades).

HCPS Reading, Mathematics, and Writing Comparison						
	Grade 3			Grade 5		
	Reading	Mathematics	Writing	Reading	Mathematics	Writing
School Year 2003-04						
Kāhala Elementary	72.3%	60.2%	66.0%	89.2%	63.1%	64.0%
Liholiho Elementary	52.1%	48.9%	68.0%	70.6%	35.3%	68.0%
Waikīkī Elementary	57.5%	52.5%	68.0%	58.1%	27.4%	60.0%
Wilson Elementary	79.2%	63.6%	72.0%	69.4%	44.7%	62.0%
Wai`alae	68.3%	40.2%	69.6%	73.0%	29.1%	64.0%
5-School Average	65.9%	53.1%	68.7%	72.1%	39.9%	63.6%
State Average	47.0%	26.6%	60.0%	49.9%	22.6%	60.0%
School Year 2002-03						
Kāhala Elementary	73.0%	59.5%	56.0%	89.2%	63.1%	64.0%
Liholiho Elementary	53.6%	32.8%	52.0%	76.9%	44.2%	68.0%
Waikīkī Elementary	44.0%	28.6%	56.0%	40.0%	27.3%	50.0%
Wilson Elementary	69.2%	53.8%	56.0%	66.7%	51.7%	54.0%
Wai`alae	56.7%	43.3%	62.0%	56.8%	34.6%	60.6%
5-School Average	59.3%	43.6%	56.4%	65.9%	44.2%	59.3%
State Average	42.6%	24.3%	50.0%	41.4%	19.8%	52.0%
School Year 2001-02						
Kāhala Elementary	67.9%	51.9%	48.0%	89.2%	63.1%	50.0%
Liholiho Elementary	37.3%	12.3%	34.0%	68.0%	33.3%	50.0%
Waikīkī Elementary	56.1%	40.4%	46.0%	35.9%	20.5%	40.0%
Wilson Elementary	68.3%	41.5%	48.0%	64.6%	55.6%	48.0%
Wai`alae	60.0%	35.0%	48.0%	64.2%	42.6%	56.0%
5-School Average	57.9%	36.2%	44.8%	64.4%	43.0%	48.8%
State Average	43.0%	20.0%	40.0%	42.0%	20.9%	44.0%

Source: Hawai'i Department of Education

Note: Reading and Mathematics show percent of students that "Meet" or "Exceed" proficiency scores. The writing score is a schoolwide average the Department of Education currently reports as a score out of 25 possible points (for example, 13.0). The Writing score was converted for this table to a percentage (x/25).

This page intentionally left blank.

Appendix C - Kaimuki Middle School Stanford Achievement Test Mathematics and Reading Mean Percentile Ranks Comparing Former Wai`alae Students and Students from Other Schools, 1995-1997 (6th Grade) and 2002-2004 (8th Grade)

	6th Grade 1995		6th Grade 1996		6th Grade 1997		3-year total	
Previous School	At Wai`alae 5th grade 1994	Other students	At Wai`alae 5th grade 1995	Other students	At Wai`alae 5th grade 1996	Other students	At Wai`alae 5th grade 1994-96	Other students
No. of students	30	76	19	86	35	75	84	237
SAT-8 Reading	67%	55%	75%	50%	64%	48%	69%	51%
SAT-8 Mathematics	71%	63%	83%	71%	58%	54%	71%	63%

	8th Grade 2002		8th Grade 2003		8th Grade 2004		3-year total	
Previous School	At Wai`alae 5th grade 1999	Other students	At Wai`alae 5th grade 2000	Other students	At Wai`alae 5th grade 2001	Other students	At Wai`alae 5th grade 1999- 2001	Other students
No. of students	50	256	54	243	38	262	142	761
SAT-9 Reading	67%	61%	56%	57%	55%	60%	59%	59%
SAT-9 Mathematics	66%	66%	60%	66%	67%	68%	64%	67%

Sources: 1995-1997: Wai`alae School; 2002-2004: Hawai`i Department of Education

This page intentionally left blank.

Notes

Chapter 2

1. U.S. Department of Labor, Secretary's Commission on Achieving Necessary Skills (SCANS), "What Work Requires of Schools - A SCANS Report for America 2000," June 1991.
2. Chappuis & Chappuis, *Understanding School Assessment, A Parent and Community Guide to Helping Students Learn*, Assessment Training Institute, 2002.
3. U.S. Department of Education, Institute of Education Sciences, National Center for Education Evaluation and Regional Assistance, "Identifying and Implementing Educational Practices Supported by Rigorous Evidence: A User Friendly Guide," December 2003.
4. Cornell-Feist, "Massachusetts Charter Schools Trustees Guide," Massachusetts Charter School Resource Center at Pioneer Institute, http://www.pioneerinstitute.org/pdf/trustees_guide.pdf, no date.
5. Frank Martinelli, "Charter Schools: Creating Effective Governing Boards," Charter Friends National Network, http://www.uscharterschools.org/gb/governance/governance_summary.pdf, no date.
6. Cornell-Feist, "Massachusetts Charter Schools Trustees Guide."
7. Martinelli, "Charter Schools: Creating Effective Governing Boards."
8. Cornell-Feist, "Massachusetts Charter Schools Trustees Guide."
9. Office of Information Practices, Opinion Letter No. 03-01, February 2003.
10. Office of Information Practices, Opinion Letter No. 05-09, April 2005.

This page intentionally left blank.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Board of Education, Department of Education, Charter School Administrative Office, and Wai`alae Elementary Public Charter School on June 23, 2005. A copy of the transmittal letter to the board is included as Attachment 1. Similar letters were sent to the department, the administrative office, and the school. All but the department responded to the draft. The responses of the board, the administrative office, and the school are included as Attachments 2, 3, and 4, respectively.

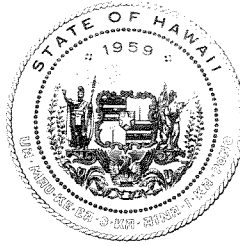
While generally agreeing with our report, the responses included some disagreements and comments.

The Board of Education expressed its appreciation for the audit and referred to its efforts to work with the Charter School Administrative Office to improve oversight and support for charter schools. The board also cited recent legislative actions designed to improve the existing charter school laws.

The Charter School Administrative Office's response, while generally in agreement with most of our findings, found that our report did not sufficiently recognize the importance of experimentation in the charter school movement and felt that our report may create the impression that the purpose of charter school is primarily to improve state test scores. We reexamined the report and found it fairly reflects our findings.

Wai`alae Elementary Public Charter School welcomed our report's conclusions and recommendations and expressed a commitment to increased accountability to the Board of Education and public policy-makers. The school reminded the readers of our report that its students' performance has remained high despite critical factors presenting challenges for the school. The school also emphasized the value of the self-study and long-range plan for improvement associated with accreditation by WASC, the organization that also accredits the University of Hawaii.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor
(808) 587-0800
FAX: (808) 587-0830

June 23, 2005

COPY

The Honorable Breene Harimoto, Chair
Board of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawai'i 96813

Dear Mr. Harimoto:

Enclosed for your information are 14 copies, numbered 6 to 19, of our confidential draft report, *Audit of the Wai'alae Elementary Public Charter School*. We ask that you telephone us by Friday, June 24, 2005, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the board. If you wish your comments to be included in the report, please submit them no later than 12:00 p.m., Thursday, June 30, 2005.

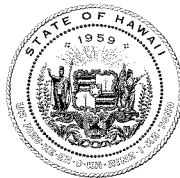
The Department of Education, Charter School Administrative Office, Wai'alae Elementary Public Charter School, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures



**STATE OF HAWAII
BOARD OF EDUCATION**

P. O. BOX 2360
HONOLULU, HAWAII 96804

RECEIVED

June 28, 2005

2005 JUN 30 AM 10:46

**OFF. OF THE AUDITOR
STATE OF HAWAII**

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for the opportunity to comment on the confidential draft report, *Audit of Wai`alae Elementary Public Charter School* (report). The Board of Education (Board) values your findings, comments, and recommendations, and appreciates the time spent by your staff in conducting the audit.

The Board's Committee of the Whole on New Century Charter Schools (Committee) is currently working collaboratively with the executive director of the Charter School Administrative Office in its oversight of charter schools and on the development of various guidelines. Included are guidelines for approval of amendments to detailed implementation plans, ensuring fiscal and academic accountability, and revocation of charters. These guidelines will aid the Board and the charter schools in clarifying expectations.

In addition, your previous report No. 05-01, *Audit of Na Wai Ola Waters of Life Charter School*, you noted, "Hawaii's faulty charter school law impedes accountability and effective support." The Legislature acknowledged the problems with the existing charter school law and passed Act 87, Session Laws of Hawaii 2005, which creates a task force to "identify and recommend to the legislature revisions to the existing charter school law and to help create an effective framework for overseeing and supporting new and existing charter schools." Hopefully, the task force will be able to clarify and improve the charter school law, for all parties involved.

Ms. Marion M. Higa
June 28, 2005
Page 2

The Board of Education appreciates the efforts of you and your staff and the opportunity to comment on your report.

Sincerely yours,

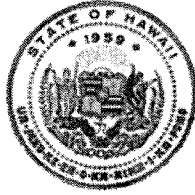
A handwritten signature in black ink, appearing to read "Breene Harimoto". The signature is fluid and cursive, with a horizontal line extending from the end.

BREENE HARIMOTO
Chairperson

cc: Board of Education members

Linda Lingle
Governor

Jim Shon
Executive Director



Charter Schools Administrative Office

1111 Bishop Street, Suite 516
Honolulu, Hawaii 96813
Tel: 586-3775 Fax: 586-3776
jim.shon@notes.k12.hi.us

RECEIVED

2005 JUN 28 PM 2:28

OFC. OF THE AUDITOR
STATE OF HAWAII

June 28, 2005

MEMO

TO Marion M. Higa, State Auditor
FROM Jim Shon, Executive Director, Charter Schools Administrative Office
RE Response to *Audit of the Wai'alae Elementary Public Charter School*
(Draft Received June 23, 2005)

I. General Comments.

The Charter Schools Administrative Office (CSAO) appreciates the Audit's focus on two areas of importance for improvement in Hawaii's charter school system: (1) creation of authentic assessments and documentation for project-based learning strategies; and (2) strengthening the procedures and formal documentation for decision making by Local School Boards.

The Audit integrates criticism of the charter school law and the larger system with criticism of the school. The CSAO wishes to caution the reader to take note of this distinction when reviewing the various sections of the report.

There are two basic findings of the Audit: (1) Wai'alae has not demonstrated that its charter status has enhanced learning; and (2) The school's board needs to strengthen its governance and improve its documentation and oversight over administrative practices.

II. Red Herring: Wai'alae's Curriculum Success Equals Failure?

Finding #1: Wai'alae has not demonstrated that its charter status had enhanced learning.

The CSAO strongly takes issue with the Audit's basic premise: that a high performing charter school's legal or charter requirement is primarily to improve its state test scores. If a school is already performing well, improving high-stake test scores may be a secondary goal. The charter can then focus on more meaningful student learning and a variety of other outcomes.

The CSAO believes the Audit reflects a misunderstanding of one of the most important roles of the charter school movement: experimentation. The Audit rightly states on page 2: “Charter schools were created with the intent to encourage alternative administrative and instructional programs.”

This is precisely what Wai’alae has done. It has substituted an alternative approach for traditional instruction methods and assessments. It has done this successfully, as it continues to “perform significantly above average in statewide tests.”

In the words of the Audit, p.7:

After becoming Hawaii’s first charter school in 1995, Wai’alae put more resources into the classroom and implemented new instructional programs. Wai’alae completely changed its academic focus, replacing traditional instruction methods and assessments with a constructivist approach to education. To its credit, the school has easily met Adequate Yearly Progress criteria under the federal No Child Left Behind education reform act and its students perform significantly above average in statewide tests.

Charter schools often test alternative approaches to determine if they are less effective, as effective, or more effective than traditional methods. Obviously, Wai’alae did adopt an alternative approach and demonstrated that it was just as effective as the traditional model. This finding is significant. Other public schools can now move forward using these alternative methods without fear that their students will suffer with lower test scores.

The Audit implies an additional standard for all charters: enhanced learning. Wai’alae’s curriculum is criticized in spite of the Audit’s extensive documentation that Wai’alae students are still performing above average on the statewide tests, which are objective measurements.

III. Point Well Taken: School-Based and Systemic Assessments Needed.

The Audit is on sounder ground when noting that Wai’alae has not developed alternative benchmarks to measure its curriculum. In the world of project-based instruction, this is an important red flag. If Wai’alae staff and faculty have not yet developed objective assessments for their alternative curriculum, and have not tracked student progress on their own terms, the usefulness of their innovations, and the ability to share and disseminate them, is greatly limited. Internally, it would appear that the school is relying more on the high-stake tests it dislikes to demonstrate its success than adoption of curriculum-appropriate assessments.

The Audit rightly identifies work yet to be done not only at Wai’alae but in many schools to communicate objective outcomes for alternative methods that go beyond the mono-dimensional state generated tests.

IV. Local School Board Decision Making and Record Keeping.

Finding #2: The school’s board needs to strengthen its governance and improve its oversight over administrative practices.

The CSAO is appreciative of the research done by the authors in identifying resources for effective boards. The CSAO is in the process of developing a continuum of board development and training that may also involve creation of a special “certification” of a Local School Board (LSB). The certification may well be utilized as charter schools propose a multi-dimensional restructuring plan.

The Audit narrative identifies systemic issues embedded in the law, such as the awkwardness of a stakeholder board. It should also be mentioned that although the original stakeholder composition of start-up charter schools has disappeared from the charter laws, the original application for the charters and the Detailed Implementation Plans required of start-ups still include the requirement for a stakeholder board. Thus, all existing charters are still bound by the stakeholder model. This is one area that the legislatively created Task Force on Charter School Governance should address during the interim before the 2006 legislative session.

The CSAO agrees that each LSB needs to take seriously the formal adoption of necessary policies (such as procurement), and the keeping of minutes that record members present and votes cast.

The CSAO is concerned to learn that the Department of Education (DOE) system for criminal background checks may generate incomplete records, with no confirmation from the DOE that the check has been completed. This and other issues were raised by the Auditor that call into question the appropriateness of attempts by charters to impose DOE services on charter schools.

The CSAO is currently working to offer an alternative to the DOE service package by securing an independent service for processing payroll and personnel actions.

V. Context for Analysis of Charter Operations.

This audit should be read within the context of charter school experiences in Hawaii, namely:

- Most Charter Local School Boards have not had the benefit of systematic specialized training. The DOE is currently engaged in a proactive effort to train DOE principals and their school community councils in the “rubrics” of decision making under ACT 51. It is clear that many recognize that the business of developing budgets and academic strategies is a complex and challenging one. Significant resources have been allocated for this training within the DOE system. Charter school administrators and instructional staff are often not invited to these sessions. Charter schools have been without any earmarked LSB training resources since their beginning, and have had to learn while doing with little or no support.
- In spite of this challenging environment, charter schools have experienced continuous growth, from 3,066 in 2001-2002 to projected enrollments of over 6,000 in 2005. 27% of charter school students attend schools with a special focus on Hawaiian culture, representing a form of educational ethnic safety net for alienated youth in our regular DOE schools. While 70% of charter schools are Title I schools (with a large number of students from poorer families), as a group, in 2004 charter schools outperformed regular public school students in the most recent Hawaii State Assessment and SAT tests. In addition, 40% of charter schools met the SAT honor roll criteria (77% of students in a grade scored at or above the national norm on *both* reading and math.)
- While charter schools participate in the high-stake tests, they have also been actively experimenting with alternative curricula, hands-on project-based learning, culture-based learning and more intimate learning environments. These experiments deserve greater recognition and examination by traditional schools. Audits should recognize the positive value of educational experimentation in the charter environment. What is of greater concern is that the larger system of public education appears less than enthusiastic in learning from charters.

LINDA LINGLE
GOVERNOR



STATE OF HAWAII

WAI'ALAE ELEMENTARY PUBLIC CHARTER SCHOOL

1045 NINETEENTH AVENUE
HONOLULU, HAWAII 96816

June 30, 2005

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, room 500
Honolulu, Hawaii 96813-2917

RECEIVED

2005 JUN 30 AM 8:34

OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa,

Thank you for the opportunity to comment on your findings and recommendations as stated in the confidential draft report, *Audit of the Wai'alae Elementary Public Charter School*.

Wai'alae School acknowledges and agrees that there is little scientifically based research that can conclusively answer whether Wai'alae's constructivist approach to instruction and learning has yielded results superior to more traditional public education. However, in looking at the summative data that is available and recognizing that Wai'alae School spends little or no time teaching to the standardized tests, the results of the HSA tests do show that our students continue to perform very well.

The portfolio assessments designed and implemented at the school do give essential information on each individual student's progress in all content areas and, perhaps more importantly, also reveals a student's thinking, values, and ability to self-reflect. We acknowledge that there is a lack of appropriate student assessment tools that allow for objective evaluation and collection of summative data that reflects the student learning at Wai'alae School. Our challenge is to develop a tool that 1) shows how our portfolio assessment can be used to measure learning and progress over time and 2) will inform public policy makers and support appropriate accountability to the public.

We would like to remind the public policy makers that our student's academic performance has remained high in spite of several critical factors:

- increased ESL population in recent years
- High turn over in faculty and administration

Additionally, while WASC accreditation does not provide a quantified measure of success, it does require that a school submit a detailed self-study and long ranged plan for improvement. This does provide public policy makers, Board of Education members, parents and students with valuable operational and instructional data. WASC is a nationally recognized accrediting body and responsible for accrediting other State educational institutions including the University of Hawaii.

Wai'alae School agrees with the recommendation to adopt and include accountability measures such as benchmarks, surveys of parents and former students, and scientific

support for the efficacy of our programs as necessary in providing more data as to the quality of the school's programs.

In response to faculty and parent concerns about falling test scores in mathematic, the school has researched and adopted a school wide math program that meets State standards, is recognized by the National Center for Teaching Mathematic, and is true to the constructivist approach. We look forward to improving math scores without compromising our philosophical and instructional beliefs. Accountability for learning will be measured by our student's performance on the Hawaii State Assessments.

The auditor's indicate that the Charter School movement began with the intent to encourage alternative administrative and instructional programs, public school choice, and community-parental empowerment. Our evolving WASC self-study has documented this. Wai'alaie School has fulfilled this mandate.

Wai'alaie School agrees with the auditor's finding that the Wai'alaie School Board needs to strengthen its governance and improve its oversight over administrative practices. We agree that the statutory requirement that conversion charter schools must include one representative each for principals, teachers, support staff, parents, and the community at large is not sufficient to guarantee the diversity needed to efficiently and effectively manage the school. Wai'alaie School Board members recognize this and have approved designating funds to provide its members with better training and to identify and recruit more members from the community with the expertise needed to provide adequate oversight. We will use this training to address auditor's specific concerns regarding diversity, revision of By-Laws, better accountability for proceedings and decisions, strategic planning, and stronger leadership.

As a conversion Charter School, there has been a reliance on DOE processes and policies. We continue to look for more effective ways to take full responsibility for accurate records that reflect best practices for our students, personnel, operations, and facilities. We will review the auditor's recommendations to ensure that our fiscal accountability measures are comprehensive and accurate; and that policies for health and safety are appropriate.

Wai'alaie School welcomes the auditor's report as an opportunity for introspection as we continue to strive for excellence in education, administration, and accountability. We will use these recommendations to improve our efforts to provide the BOE and public policy makers with accurate information and fiscal accountability.

Sincerely,



Wendy W. Lagareta

Chief Educational Officer

Wai'alaie Elementary Public Charter School